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Central Intelligence Bulletin

State Dept. review completed

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3 July 1961

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Approved For Release 2003/08/08 : CIA-RDP79T00975A019400090002-6

Approved For Release 2003/08/08 : CIA-RDP79T00975A019400090002-6

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CHILE: The Central Bank's recommendation for an austerity program probably will not be adopted by the Allende government.

The bank warned in mid-May that foreign exchange reserves may be exhausted by the end of the year,

It recommended that the regime stop deficit spending, raise prices charged by nationalized enterprises, reassure private investors, devalue the escudo to stimulate exports and reduce imports, and let prices for luxury goods rise. The administration, however, intends for the present to continue its expansionary policies,

The US Embassy believes that Allende will take some remedial action before reserves are exhausted.

Chile's consumer spending spree continues unabated and unemployment in Santiago dropped sharply from eight to five percent between March and June 1971. Industrial production reportedly is approaching capacity levels and will be hard pressed to meet demand. As a result, prices are beginning to rise more rapidly despite strict controls and increased imports, but inflation this year is likely to be less than last year. The government's ability to control price increases will depend upon future imports and the expansion of production facilities.

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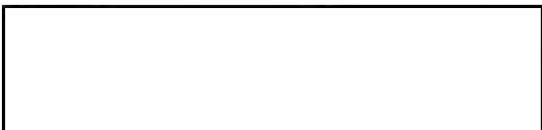
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